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CENTRAL AMERICA REPORT*
Week of 11 January 1982

KEY DEVELOPMENTS

Managua's siege mentality--recently heightened by mounting government casualties in clashes with anti-Sandinista bands--could result in more aggressive actions by the increasingly powerful Nicaraguan armed forces.

The Sandinistas are becoming more concerned about unrest in Nicaragua's Atlantic Coast region and about the activities of counterrevolutionary groups based in Costa Rica. They are particularly angered, however, by the ability of anti-Sandinista bands to use--with collusion by the Honduran armed forces--Honduran territory as the principal base for cross-border raids into Nicaragua.

Pressures for a major retaliatory strike to destroy counterrevolutionary camps in Honduras probably are building among Sandinista leaders. Although reports of a large Nicaraguan military incursion into Honduras in late December were greatly exaggerated, the incident underscores growing bilateral tensions and the danger of a major Sandinista response. [REDACTED]

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* This is a joint DDI/DDO sitrep.

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The Atlantic Coast region--populated by Indians and English-speaking blacks and traditionally prone to separatist movements--remains a special problem for the Sandinistas. Many of the 2,000 Indians, who sought refuge in Honduras from Sandinista repression last spring, [REDACTED]

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[REDACTED] have hit small military garrisons and towns, killed several local officials [REDACTED] and endangered gold mining and forestry activities.

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In an effort to secure control of the region, the Sandinistas have beefed up their military presence. They also have imposed a ban on local news reporting and taken over the operation of a local radio station. The regimes opponents claim the Sandinistas are even forcibly relocating Indians away from the Honduran border.

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At home, the regime is attempting to whip up public outrage over counterrevolutionary activities, while pressing for increased vigilance by its security services against anti-government groups. The Sandinistas recently claimed to have uncovered a plot to assassinate government leaders and sabotage the country's only petroleum refinery and the national cement plant. Fifteen persons were arrested, [REDACTED]

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Guerrilla Activity

- The insurgents are proceeding with efforts to undermine local security prior to the 28 March elections.
- They recently raided the departmental capitals of Usulután and San Miguel, although little damage was done (see map).
- They also attacked a large number of villages in Morazan, Usulután, and Cabanas Departments and overran a military garrison in Chalatenango.
- Bombing incidents in San Salvador continue and ambushes of small military units are on the rise.
- The insurgents have called for popular demonstrations on 22 January to commemorate the 50th anniversary of the first leftist uprising in El Salvador.
- They may also plan new raids on that date.

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Government Response

-- The military launched its first large sweep operation of the year in San Vicente Department.

-- There was little contact with the insurgents, and few arms were seized.

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Political/Economic Developments

-- The Government is moving forward in its efforts to get international support for the elections.

-- Some 66 nations reportedly have been asked to send observers, and various international organizations also will be invited.

- The public offer by one of the major regional democratic labor organizations to send observers is likely to have an impact on other international labor federations.
- The two new members of the three-man Central Elections Council have been announced.
- The appointees, neither of whom is a member of the co-governing Christian Democratic Party, give the Council a non-partisan cast that should blunt criticism by the opposition parties and may increase its international credibility.
- The Central Elections Council hopes to have 5,000 polling places throughout the country, many in public schools.
- The large number of locations is intended to induce a significant voter turnout, but the government may balk because of the difficulty providing the necessary security.
- Insurgent damage to the electrical, telephone, and transportation systems approached \$45 million during 1981.
- These losses were partly responsible for the 10 percent decline in real GNP estimated for the year.
- The foreign exchange situation appears to be worsening; continuing payment delays are prompting foreign creditors to tighten terms.
- Any government action to strengthen exchange controls, however, could darken the prospects for IMF aid.

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Mexico: President Lopez Portillo has publicly acknowledged for the first time that political instability in Central America could spill over into Mexico, but said that the government is prepared to deal with such an eventuality.

Nicaragua: Nicaragua has received \$37.5 million of a \$50 million Central American Common Market fund designed to offset regional trade deficits. Managua received the lion's share because its 1981 regional deficit was the largest.

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